

Russian Agricultural Bank Group

Interim Condensed Consolidated Financial Statements with Independent Auditor's Report on Review of Interim Condensed Consolidated Financial Statements

30 June 2014

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Report on review of interim condensed consolidated financial statements

To the Shareholder and Supervisory Board of Russian Agricultural Bank Group

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OJSC Russian Agricultural Bank and its subsidiaries (together the "Group") as at 30 June 2014, which comprise of the interim consolidated statement of financial position as at 30 June 2014 and the related interim consolidated statements of profit or loss and other comprehensive income for the six and three months then ended, interim consolidated statements of changes in equity and of cash flows for the six months then ended and selected explanatory notes.

Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting*.

Ernst & Young LLC

3 September 2014


Russian Agricultural Bank Group
Interim Consolidated Statement of Financial Position
as at 30 June 2014

<i>In millions of Russian Roubles</i>	Note	30 June 2014 (unaudited)	31 December 2013
Assets			
Cash and cash equivalents		96 000	128 444
Mandatory cash balances with the Central Bank of the Russian Federation		8 769	8 735
Trading securities		4 087	2 810
Financial instruments designated at fair value through profit or loss		5 339	12 220
Due from other banks		28 084	43 065
Derivative financial instruments	13	30 510	25 667
Loans and advances to customers	5	1 293 267	1 261 046
Investment securities available for sale		51 950	50 299
Investment securities held to maturity		11 803	11 291
Investment securities pledged under repurchase agreements	12	74 680	73 210
Deferred income tax asset		6 932	7 868
Intangible assets		1 775	1 769
Premises and equipment		24 916	24 655
Current income tax assets		748	22
Other assets		16 007	18 833
Assets held for sale		760	830
Total assets		1 655 627	1 670 764
Liabilities			
Derivative financial instruments	13	2 386	950
Due to other banks	6	144 420	149 680
Customer accounts		743 455	722 125
Promissory notes issued and deposit certificates		28 262	31 174
Bonds issued	7	421 078	449 803
Deferred income tax liability		1 304	1 358
Current income tax liability		-	508
Other liabilities		12 545	13 330
Subordinated debts		75 380	74 053
Total liabilities		1 428 830	1 442 981
Equity			
Share capital		218 798	218 798
Revaluation reserve for premises		1 213	1 232
Revaluation reserve for investment securities available for sale		(1 769)	(1 285)
Retained earnings		8 228	7 863
Equity attributable to the Bank's shareholder		226 470	226 608
Non-controlling interest		327	1 175
Total equity		226 797	227 783
Total liabilities and equity		1 655 627	1 670 764

Approved for issue and signed on behalf of the Management Board on 3 September 2014.


D.N. Patrushev
Chairman of the Management Board




E.A. Romankova
Chief Accountant

The notes set out on pages 5 to 25 form an integral part of these interim condensed consolidated financial statements.

Russian Agricultural Bank Group
Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income
for the six and three months ended 30 June 2014

(Unaudited) <i>In millions of Russian Roubles</i>	Note	For the six months ended 30 June		For the three months ended 30 June	
		2014	2013	2014	2013
Interest income	8	81 227	73 754	38 831	37 470
Interest expense	8	(45 957)	(42 439)	(23 398)	(21 529)
Net interest income		35 270	31 315	15 433	15 941
Provision for loan impairment		(14 603)	(10 032)	(4 056)	(5 207)
Net interest income after provision for loan impairment		20 667	21 283	11 377	10 734
Fee and commission income		4 334	4 147	2 305	2 291
Fee and commission expense		(494)	(388)	(258)	(217)
(Losses net of gains)/gains less losses from trading securities		(13)	20	(8)	4
(Losses net of gains)/gains less losses from financial instruments designated at fair value through profit or loss		(348)	(251)	101	(133)
(Losses net of gains)/gains less losses from investment securities available for sale		(716)	105	(148)	66
Foreign exchange translation (losses net of gains)/gains less losses		(4 005)	(9 845)	10 616	(7 304)
Gains less losses/(losses net of gains) from derivative financial instruments		3 920	3 967	(12 661)	3 726
(Losses net of gains)/gains less losses from dealing in foreign currencies		(433)	47	92	(88)
Release of provision/(provision) for credit related commitments and other assets impairment		39	(46)	(102)	(69)
Gains less losses/(losses net of gains) from early redemption of bonds issued and subordinated debts		192	(38)	96	(21)
Gains from non-banking activities		2 306	2 273	1 131	1 247
Losses from non-banking activities		(4 694)	(2 739)	(2 387)	(1 353)
Gain on disposal of subsidiaries		-	493	-	-
Other operating income		378	203	128	129
Administrative and other operating expenses		(19 674)	(18 412)	(9 627)	(9 129)
Profit/(loss) before tax		1 459	819	655	(117)
Income tax expense		(1 223)	(216)	(596)	(107)
Profit/(loss) for the period		236	603	59	(224)
Profit/(loss) is attributable to:					
Shareholder of the Bank		764	659	449	(232)
Non-controlling interest		(528)	(56)	(390)	8
Profit/(loss) for the period		236	603	59	(224)
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax:					
Securities available for sale:					
- Revaluation of securities at fair value		(1 321)	(634)	1 180	(520)
- Realised revaluation reserve (at disposal)		716	(105)	148	(66)
Income tax		121	148	(266)	116
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods, net of tax		(484)	(591)	1 062	(470)
Total other comprehensive (loss)/income		(484)	(591)	1 062	(470)
Total comprehensive (loss)/income for the period		(248)	12	1 121	(694)
Total comprehensive income/(loss) is attributable to:					
Shareholder of the Bank		280	68	1 511	(702)
Non-controlling interest		(528)	(56)	(390)	8
Total comprehensive (loss)/income for the period		(248)	12	1 121	(694)

The notes set out on pages 5 to 25 form an integral part of these interim condensed consolidated financial statements.

Russian Agricultural Bank Group
Interim Consolidated Statement of Changes in Equity
for the six months ended 30 June 2014

	Attributable to Shareholder of the Bank					Non-controlling interest	Total equity
	Share capital	Revaluation reserve for premises	Revaluation reserve for securities available for sale	Retained earnings	Total		
<i>In millions of Russian Roubles</i>							
Balance at 31 December 2012	188 798	1 270	(271)	7 117	196 914	983	197 897
Profit/(loss) for the period, net of tax	-	-	-	659	659	(56)	603
Other comprehensive loss for the period, net of tax	-	-	(591)	-	(591)	-	(591)
Total comprehensive (loss)/income for the period, net of tax	-	-	(591)	659	68	(56)	12
Change in ownership interests and disposal of subsidiaries	-	-	-	(1)	(1)	219	218
Depreciation of revaluation reserve	-	(19)	-	19	-	-	-
Balance at 30 June 2013 (unaudited)	188 798	1 251	(862)	7 794	196 981	1 146	198 127
Balance at 31 December 2013	218 798	1 232	(1 285)	7 863	226 608	1 175	227 783
Profit/(loss) for the period, net of tax	-	-	-	764	764	(528)	236
Other comprehensive loss for the period, net of tax	-	-	(484)	-	(484)	-	(484)
Total comprehensive (loss)/income for the period, net of tax	-	-	(484)	764	280	(528)	(248)
Change in ownership interests	-	-	-	(163)	(163)	(320)	(483)
Depreciation of revaluation reserve	-	(19)	-	19	-	-	-
Dividends declared	-	-	-	(255)	(255)	-	(255)
Balance at 30 June 2014 (unaudited)	218 798	1 213	(1 769)	8 228	226 470	327	226 797

Russian Agricultural Bank Group
Interim Consolidated Statement of Cash Flows
for the six months ended 30 June 2014

(Unaudited) <i>In millions of Russian Roubles</i>	Note	For the six months ended 30 June	
		2014	2013
Cash flows from operating activities			
Interest received		68 763	65 664
Interest paid		(45 988)	(40 435)
(Expenses incurred)/income received from trading in securities and financial instruments designated at fair value through profit or loss		(1 527)	121
Income received/(expenses incurred) from derivative financial instruments		513	(4 615)
(Expenses incurred)/income received from dealing in foreign currencies		(433)	47
Fees and commissions received		4 591	4 117
Fees and commissions paid		(494)	(388)
Other operating income received		349	198
Net insurance income received		236	100
Income received from non-banking activities		1 523	303
Losses incurred from non-banking activities		(1 537)	(1 228)
Administrative and other operating expenses paid		(16 966)	(16 145)
Income tax paid		(1 451)	(108)
Cash flows from operating activities before changes in operating assets and liabilities		7 579	7 631
Changes in operating assets and liabilities			
Net increase in mandatory cash balances with the Central Bank of the Russian Federation		(35)	(6 600)
Net (increase)/decrease in trading securities		(1 161)	15 579
Net decrease in financial instruments designated at fair value through profit or loss		7 075	1 230
Net decrease in due from other banks		18 028	19 189
Net increase in loans and advances to customers		(35 779)	(93 060)
Net decrease in other assets		2 279	1 667
Net decrease in due to other banks		(8 019)	(5 025)
Net increase in customer accounts		22 362	118 628
Net (decrease)/increase in promissory notes issued and deposit certificates		(3 514)	3 673
Net decrease in other liabilities		(2 660)	(1 419)
Net cash from operating activities		6 155	61 493
Cash flows from investing activities			
Acquisition of premises and equipment		(1 396)	(599)
Proceeds from disposal of premises and equipment		154	161
Acquisition of intangible assets		(306)	(158)
Acquisition of investment securities available for sale		(54 919)	(71 116)
Proceeds from disposal of investment securities available for sale		46 431	48 441
Acquisition of investment securities held to maturity		-	(596)
Proceeds from redemption of investment securities held to maturity		5 909	868
Acquisition of subsidiaries		(482)	-
Net cash used in investing activities		(4 609)	(22 999)
Cash flows from financing activities			
Proceeds from bonds issued	7	32 756	24 818
Repayment of bonds issued	7	(59 131)	(49 715)
Proceeds from sale of previously bought back bonds issued		3 350	4 447
Buy back of bonds issued		(10 484)	(3 804)
Proceeds from sale of interest in subsidiary		-	61
Net cash used in financing activities		(33 509)	(24 193)
Effect of exchange rate changes on cash and cash equivalents		(481)	2 819
Cash and cash equivalents classified as part of disposal groups held for sale		-	10
Net (decrease)/increase in cash and cash equivalents		(32 444)	17 130
Cash and cash equivalents at the beginning of the period		128 444	106 342
Cash and cash equivalents at the end of the period		96 000	123 472

The notes set out on pages 5 to 25 form an integral part of these interim condensed consolidated financial statements.

1 Introduction

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”) for the six and three months ended 30 June 2014 for Open-Joint Stock Company Russian Agricultural Bank (the “Bank”) and its subsidiaries (together referred to as the “Group”).

The Bank was incorporated and is domiciled in the Russian Federation. The Bank is an open joint-stock company limited by shares and was set up in accordance with Russian regulations.

The Bank’s only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property.

The Group’s structure comprises of Open Joint-Stock Company Russian Agricultural Bank and its subsidiaries. Principal subsidiaries of the Bank are Closed Joint-Stock Company RSHB Insurance (ownership interest of the Bank is 100%), RSHB Capital S.A. (special purpose entity incorporated for Eurobonds issue for the Bank), Limited Liability Company RSHB Asset Management (ownership interest of the Bank is 100%) and 31 companies operating in agricultural and other industries (ownership interest of the Bank is from 75% to 100%).

Principal activity. The Bank’s principal business activity is commercial and retail banking operations in the Russian Federation with emphasis on lending to agricultural enterprises. The main objectives of the Bank are:

- to participate in realisation of the monetary policy of the Russian Federation in the area of agricultural production;
- to develop within the agricultural industry a national system of lending to the domestic agricultural producers; and
- to maintain an effective and uninterrupted performance of the settlement system in the area of agricultural production across the Russian Federation.

The Bank has operated under a full banking license issued by the Central Bank of the Russian Federation (“CBRF”) since 13 June 2000. The Bank participates in the State deposit insurance scheme, which was introduced by Federal Law # 177-FZ “Deposits of individuals insurance in Russian Federation” dated 23 December 2003. The State Deposit Insurance Agency guarantees repayment of 100% of individual and/or individual entrepreneur deposits up to RR 700 thousand per individual in case of the withdrawal of a licence of a bank or a CBRF imposed moratorium on payments.

In May 2014 the Bank increased its ownership interest in Closed Joint-Stock company RSHB Insurance from 51% to 100%.

The Bank has 78 (31 December 2013: 78) branches within the Russian Federation. The Bank’s registered address is 119034 Russia, Moscow, Gagarinsky Pereulok, 3. The Bank’s principal place of business is 119019 Russia, Moscow, Arbat, 1.

The number of the Group’s employees as at 30 June 2014 was 35 822 (31 December 2013: 36 349).

Presentation currency. These interim condensed consolidated financial statements are presented in Russian Roubles (“RR”), unless otherwise stated.

2 Operating Environment of the Group

Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors.

In July and August 2014, several countries imposed limited sectoral sanctions on state-owned Russian banks, including OJSC Russian Agricultural bank. Sanctions forbidden financing for the period exceeding 90 days with state-owned Russian banks. The Group is assessing the effect of these sanctions on its financial position and its financial performance.

2 Operating Environment of the Group (Continued)

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes. Furthermore, the need for further developments in the bankruptcy laws, the absence of formalised procedures for the registration and enforcement of collateral, and other legal and fiscal impediments contribute to the challenges faced by banks currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory and political developments.

Management is unable to reliably determine the effects on the Group's future financial position of any potential further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013, which have been prepared in accordance with IFRS.

The functional currency of the Bank and its subsidiaries, and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles. As at 30 June 2014 the principal rates of exchange used for translating foreign currency balances were USD 1 = RR 33.6306 (31 December 2013: USD 1 = RR 32.7292), EUR 1 = RR 45.8251 (31 December 2013: EUR 1 = RR 44.9699).

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013, except for the adoption of new Standards and Interpretations as of 1 January 2014, noted below:

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities (issued on 31 October 2012). These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments are not relevant to the Group, since none of the entities in the Group qualify to be an investment entity under IFRS 10.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (issued in December 2011). These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These are effective for annual periods beginning on or after 1 January 2014. These amendments had no impact on the Group's financial position.

IFRIC Interpretation 21 Levies (issued on 20 May 2013). The Interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. This Interpretation had no impact on the Group's financial statements.

Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013). These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014. This amendment is not relevant to the Group, since the Group has not novated its derivatives during the current period.

Amendments to IAS 36: Recoverable Amount Disclosures for Non-financial Assets (issued in May 2013). These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments had no impact on the Group's financial position or performance.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The accounting estimates and judgements applied in the preparation of these interim condensed consolidated financial statements are consistent with those applied in the preparation of the annual consolidated financial statements of the Group for the year ended 31 December 2013.

Judgements that have the most significant effect on the amounts recognised in the interim condensed consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial period include:

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances — for example, selling an insignificant amount or a sale close to maturity — it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortized cost.

Impairment losses on loans and advances. The Group regularly reviews its loan portfolios to assess impairment. In determining whether an impairment loss should be recorded in the profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in a particular group.

Management determined loan impairment provisions using the “incurred loss” model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus final impairment losses from financial assets could differ significantly from the current level of provisions.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Fair value of derivatives. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect fair reported values.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits, and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on a medium term business plan prepared by management and extrapolated results thereafter. The business plan is based on management expectations that are believed to be reasonable under the circumstances. Key assumption in the business plan is to obtain profits in the current and subsequent financial years through widening of product range and client base.

5 Loans and Advances to Customers

<i>In millions of Russian Roubles</i>	30 June 2014 (unaudited)	31 December 2013
Loans to legal entities		
- Loans to corporates	1 143 567	1 113 110
- Lending for food interventions	11 686	10 896
- Deals with securities purchased under "reverse-repo agreements"	1 872	504
- Investments in agricultural cooperatives	394	391
Loans to individuals	255 067	250 538
Total loans and advances to customers (before impairment)	1 412 586	1 375 439
Less: provision for loan impairment	(119 319)	(114 393)
Total loans and advances to customers	1 293 267	1 261 046

Lending for food interventions is represented by loans to the company under the control of the Russian Federation.

As at 30 June 2014, the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 169 870 million (before impairment), or 12% of total loans and advances to customers (before impairment) (31 December 2013: the Group has loans to ten largest borrowers (groups of borrowers) in the total amount of RR 155 910 million (before impairment), or 11% of total loans and advances to customers (before impairment)).

Analysis of the movements in the provision for loan impairment is as follows:

<i>(Unaudited)</i> <i>In millions of Russian Roubles</i>	For the six months ended 30 June 2014				For the six months ended 30 June 2013			
	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total	Loans to corporates	Investments in agricultural cooperatives	Loans to individuals	Total
Provision for loan impairment at 1 January	108 964	26	5 403	114 393	92 257	16	5 092	97 365
Provision/(recovery of provision) for loan impairment during the period	14 660	(1)	(105)	14 554	7 504	28	2 503	10 035
Recovery of provision for loans sold during the period	(7 407)	-	-	(7 407)	(749)	-	-	(749)
Loans and advances to customers written off during the period as uncollectible	(2 209)	-	(12)	(2 221)	(2 322)	-	(7)	(2 329)
Disposal of subsidiaries	-	-	-	-	(345)	-	-	(345)
Provision for loan impairment at 30 June	114 008	25	5 286	119 319	96 345	44	7 588	103 977

The information on related party transactions is disclosed in Note 15.

6 Due to Other Banks

<i>In millions of Russian Roubles</i>	30 June 2014 (unaudited)	31 December 2013
Correspondent accounts and overnight placements of other banks	10 443	498
Borrowings from other banks with term to maturity:		
- sale and repurchase agreements less than 30 days	13 016	12 424
- sale and repurchase agreements from 31 to 180 days	17 119	-
- sale and repurchase agreements from 181 days to 1 year	-	20 393
- less than 30 days	12 020	12 825
- from 31 to 180 days	14 665	19 762
- from 181 days to 1 year	8 253	14 312
- from 1 year to 3 years	15 430	5 336
- more than 3 years	1 289	14 182
Borrowings from the CBRF with term to maturity:		
- sale and repurchase agreements less than 30 days	35 727	28 999
- less than 30 days	8 565	32
- from 31 to 180 days	7 893	19 517
- from 181 days to 1 year	-	1 400
Total due to other banks	144 420	149 680

The information on related party transactions is disclosed in Note 15.

7 Bonds Issued

<i>In millions of Russian Roubles</i>	30 June 2014 (unaudited)	31 December 2013
Eurobonds issued	261 761	299 782
Bonds issued on domestic market	159 317	150 021
Total bonds issued	421 078	449 803

As at 30 June 2014, bonds issued consist of US Dollars, Russian Roubles, Swiss Francs and Chinese Yuan denominated Eurobonds issued by the Group through its special purpose entity, RSHB Capital S.A. as well as Russian Roubles denominated bonds issued on domestic market.

In January 2014, the Group repaid Eurobonds (loan participation notes) denominated in US dollars in the amount of USD 702 million equivalent to RR 23 300 million as at maturity date issued in May 2008.

In February 2014, the Group partially repurchased before the maturity date and cancelled Eurobonds (loan participation notes) denominated in RR in the amount of RR 1 500 million issued in February 2013.

In February 2014, the Group issued USD 500 million Eurobonds (loan participation notes) equivalent to RR 17 756 million maturing in July 2018 with semi-annual payments of coupon at 5.1% p.a.

In February 2014, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 6 167 million at the put option date.

In February 2014, the Group re-issued on the domestic market RR 700 million of previously bought back bonds maturing in February 2017, with semi-annual payments of coupon at 8.15% p.a.

In June 2014, the Group repaid Eurobonds (loan participation notes) issued in June 2009 denominated in US dollars in the amount of USD 1 000 million, equivalent to RR 34 330 million as at maturity date.

In June 2014, the Group issued RR 5 000 million bonds (placed at par) maturing in June 2017 with semi-annual payments of coupon at 9.55% p.a. for the first two semi-annual interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

In June 2014, the Group issued RR 10 000 million bonds (placed at par) maturing in June 2017 with semi-annual payments of coupon at 9.55% p.a. for the first two semi-annual interest periods. The Group has a right to change the interest rate and determine the number of subsequent interest periods on a new interest rate, while bondholders have a right to require the Group to repurchase the bonds.

Refer to Note 16 for information on redemption after the end of the reporting period.

8 Interest Income and Expense

<i>(Unaudited)</i> In millions of Russian Roubles	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
Interest income on financial instruments carried at fair value through profit or loss				
Financial instruments designated at fair value through profit or loss	397	519	111	252
Trading securities	165	363	91	52
Total interest income on financial instruments carried at fair value through profit or loss	562	882	202	304
Interest income on other financial instruments				
Loans and advances to customers	74 301	67 260	35 367	34 481
Investment securities available for sale including pledged under repurchase agreements	3 736	2 070	1 978	1 041
Investment securities held to maturity including pledged under repurchase agreements	1 377	1 650	652	844
Due from other banks	647	1 429	300	532
Cash equivalents	604	463	332	268
Total interest income on other financial instruments	80 665	72 872	38 629	37 166
Total interest income	81 227	73 754	38 831	37 470
Interest expense				
Bonds issued	(15 712)	(16 176)	(7 728)	(7 927)
Term deposits of legal entities	(14 137)	(12 369)	(7 414)	(6 590)
Term deposits of individuals	(8 176)	(6 002)	(4 175)	(3 100)
Term deposits of other banks	(2 341)	(4 190)	(1 142)	(2 027)
Subordinated debts	(2 492)	(1 654)	(1 237)	(842)
Promissory notes issued and deposit certificates	(1 007)	(1 315)	(525)	(636)
Term deposits of the CBRF	(1 612)	(349)	(948)	(204)
Current/settlement accounts	(480)	(384)	(229)	(203)
Total interest expense	(45 957)	(42 439)	(23 398)	(21 529)
Net interest income	35 270	31 315	15 433	15 941

The information on related party transactions is disclosed in Note 15.

9 Losses Net of Gains from Non-banking Activities

<i>(Unaudited)</i> In millions of Russian Roubles	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
Sales of goods	1 458	1 235	689	582
Cost of goods sold	(1 662)	(1 491)	(791)	(683)
Impairment charge of trade receivables and prepayments	(103)	(319)	(39)	(190)
Net income from insurance operations	281	164	13	186
Other non-banking income	265	548	101	365
Other non-banking expenses	(2 627)	(603)	(1 229)	(366)
Total losses net of gains from non-banking activities	(2 388)	(466)	(1 256)	(106)

Sales of goods mainly represent sales of grain, sugar, meat and milk products, animal feedstuff and other non-foods agriculturals.

9 Losses Net of Gains from Non-banking Activities (Continued)

Net income from insurance operations is as follows:

(Unaudited) <i>In millions of Russian Roubles</i>	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
Insurance premiums				
Premium earned	1 010	805	623	509
Reinsurers share in premiums earned	(427)	(315)	(282)	(209)
Net insurance premiums earned	583	490	341	300
Insurance benefits and claims				
Claims incurred during the period	(284)	(444)	(276)	(199)
Acquisition costs	(136)	(112)	(84)	(59)
Reinsurers share in claims incurred during the period	118	230	32	144
Net insurance benefits and claims	(302)	(326)	(328)	(114)
Net income from insurance operations	281	164	13	186

10 Significant Risk Concentrations

As at 30 June 2014 and 31 December 2013, cash and cash equivalents and placements with other banks included no balances with other banks each above 10% of the Group's equity.

As at 30 June 2014, cash and cash equivalents included the balances with CBRF in the total amount of RR 18 734 million, or 20% of total cash and cash equivalents (31 December 2013: RR 39 812 million, or 31% of total cash and cash equivalents).

As at 30 June 2014, the Group had the balances due to CBRF in the total amount of RR 52 185 million, or 36% of total due to other banks (31 December 2013: balances due to CBRF in the total amount of RR 49 948 million, or 33% of total due to other banks).

As at 30 June 2014 and 31 December 2013, due to other banks included no balances due to other banks each above 10% of the Group's equity.

As at 30 June 2014, the Group had three customers with the balance above 10% of the Group's equity each (31 December 2013: two customers with the balance above 10% of the Group's equity each). The aggregate balance of such customer accounts was RR 163 404 million, or 22% of total customer accounts (31 December 2013: RR 102 153 million, or 14% of total customer accounts).

11 Segment Analysis

An operating segment is a component of the Group that engages in business activities from which it earns revenues and incurs expenses whose operating results are regularly reviewed by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. The Management Board has been identified as the CODM.

The Management Board of the Bank performs geographic analysis of the Bank's operations and therefore the Bank's regional branches have been designated as operating segments.

Taking into account the administrative-territorial division of Russia, federal districts of the Russian Federation have been designated as reportable segments.

The Management Board of the Bank assesses efficiency of operating segments based on a financial performance measure prepared from statutory accounting data.

The accounting policy of the operating segments is based on Russian Accounting Rules (RAR) and thus significantly differs from policies described in the summary of significant accounting policies in these interim condensed consolidated financial statements and in Group's last annual consolidated financial statements.

11 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the six months ended 30 June 2014 and for the six months ended 30 June 2013 and segment reporting of the Group's assets at 30 June 2014 and 31 December 2013 are as follows:

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the six months ended 30 June 2014 (unaudited)											
Revenue from external customers:	8 063	19 463	3 275	18 828	4 730	5 996	8 972	2 892	4 648	5 353	82 220
- Interest income from loans and advances to customers, due from other banks and other placed funds	7 741	17 706	2 958	17 492	4 258	5 526	8 189	2 653	4 447	4 997	75 967
- Net fee and commission income from credit related operations	322	1 757	317	1 336	472	470	783	239	201	356	6 253
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(5 067)	146	107	61	90	(47)	55	191	102	101	(4 261)
Interest expenses from due to other banks, customer accounts and bonds issued	(32 129)	(4 375)	(909)	(3 440)	(1 701)	(448)	(1 387)	(526)	(467)	(540)	(45 922)
Provision (charge)/recovery for impairment	(961)	(7 261)	(622)	(3 467)	(2 609)	(4 674)	(680)	(257)	1 906	(978)	(19 603)
Administrative and maintenance expense	(13 452)	(994)	(309)	(886)	(321)	(350)	(610)	(205)	(167)	(230)	(17 524)
- Including depreciation charge	(133)	(111)	(23)	(91)	(35)	(47)	(63)	(14)	(21)	(21)	(559)
(Other expenses less other income)/other income less other expenses	(430)	(109)	3	137	(79)	(44)	220	(30)	(2 881)	6	(3 207)
Current income tax expense	(513)	-	-	-	-	-	-	-	-	-	(513)
Deferred income tax credit	9 824	-	-	-	-	-	-	-	-	-	9 824
Intersegment income/(expense)*	41 744	(11 269)	(1 164)	(9 773)	(2 441)	(3 753)	(4 858)	(1 338)	(3 772)	(3 376)	-
(Loss)/profit of the reportable segments	(34 665)	6 870	1 545	11 233	110	433	6 570	2 065	3 141	3 712	1 014

11 Segment Analysis (Continued)

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the six months ended 30 June 2013 (unaudited)											
Revenue from external customers:	8 445	17 947	3 610	16 441	4 941	6 495	7 802	2 318	2 631	4 667	75 297
- Interest income from loans and advances to customers, due from other banks and other placed funds	8 317	16 398	3 229	15 062	4 463	5 931	6 968	2 104	2 436	4 281	69 189
- Net fee and commission income from credit related operations	128	1 549	381	1 379	478	564	834	214	195	386	6 108
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(3 362)	97	142	(83)	(31)	(161)	50	(26)	(8)	(17)	(3 399)
Interest expenses from due to other banks, customer accounts and bonds issued	(29 898)	(4 788)	(568)	(2 265)	(1 047)	(358)	(1 107)	(475)	(426)	(504)	(41 436)
Provision (charge)/recovery for impairment	(5 953)	6 553	(129)	(644)	(523)	(864)	(950)	(48)	(8 125)	(2 023)	(12 706)
Administrative and maintenance expense	(12 360)	(821)	(266)	(768)	(293)	(331)	(544)	(164)	(168)	(202)	(15 917)
- Including depreciation charge	(76)	(106)	(24)	(92)	(38)	(44)	(61)	(11)	(23)	(17)	(492)
(Other expenses less other income)/other income less other expenses	(346)	(287)	(40)	66	14	66	264	20	323	13	93
Current income tax expense	(948)	-	-	-	-	-	-	-	-	-	(948)
Intersegment income/(expense)*	36 856	(8 869)	(1 311)	(8 575)	(2 583)	(3 712)	(4 556)	(1 021)	(3 573)	(2 656)	-
(Loss)/profit of the reportable segments	(44 422)	18 701	2 749	12 747	3 061	4 847	5 515	1 625	(5 773)	1 934	984
Total assets											
30 June 2014 (unaudited)	1 620 391	439 132	65 686	339 746	127 372	126 127	169 178	67 437	110 846	107 309	3 173 224
31 December 2013	1 564 871	434 156	67 370	333 995	120 154	133 685	174 580	62 447	122 402	101 184	3 114 844

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

11 Segment Analysis (Continued)

Segment reporting of the Group's revenue and profit/(loss) for the three months ended 30 June 2014 and for the three months ended 30 June 2013 are as follows:

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the three months ended 30 June 2014 (unaudited)											
Revenue from external customers:	3 898	9 916	1 616	9 517	2 353	2 902	4 321	1 495	1 262	2 769	40 049
- Interest income from loans and advances to customers, due from other banks and other placed funds	3 825	8 914	1 447	8 801	2 104	2 654	3 907	1 370	1 169	2 579	36 770
- Net fee and commission income from credit related operations	73	1 002	169	716	249	248	414	125	93	190	3 279
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(4 130)	322	(145)	667	522	506	131	(19)	196	(121)	(2 071)
Interest expenses from due to other banks, customer accounts and bonds issued	(16 433)	(2 069)	(454)	(1 702)	(957)	(229)	(692)	(296)	(231)	(272)	(23 335)
Provision (charge)/recovery for impairment	(38)	(4 980)	(334)	(2 224)	(2 372)	(2 475)	(568)	(178)	(740)	(587)	(14 496)
Administrative and maintenance expense - Including depreciation charge	(7 280)	(553)	(168)	(474)	(166)	(187)	(326)	(101)	(83)	(120)	(9 458)
(Other expenses less other income)/other income less other expenses	(82)	(56)	(12)	(46)	(18)	(23)	(32)	(7)	(10)	(11)	(297)
	(251)	(208)	(6)	65	74	22	29	(36)	(6)	11	(306)
Current income tax credit	144	-	-	-	-	-	-	-	-	-	144
Deferred income tax credit	9 824										9 824
Intersegment income and expense*	21 441	(5 943)	(577)	(5 079)	(1 183)	(1 868)	(2 461)	(675)	(1 912)	(1 743)	-
(Loss)/profit of the reportable segments	(14 266)	2 428	509	5 849	(546)	539	2 895	865	398	1 680	351

11 Segment Analysis (Continued)

<i>In millions of Russian Roubles</i>	Head office	Central federal district	Far-Eastern federal district	Volga federal district	North-West federal district	North-Caucasian federal district	Siberian federal district	Ural federal district	Krasnodar branch	Southern federal district (without Krasnodar branch)	Total
For the three months ended 30 June 2013 (unaudited)											
Revenue from external customers:	3 797	9 703	2 147	8 842	2 571	3 294	4 005	1 203	1 487	2 425	39 474
- Interest income from loans and advances to customers, due from other banks and other placed funds	3 710	8 821	1 948	8 069	2 314	3 016	3 544	1 082	1 381	2 200	36 085
- Net fee and commission income from credit related operations	87	882	199	773	257	278	461	121	106	225	3 389
(Losses net of gains)/gains less losses arising from securities, derivative financial instruments and currency	(1 561)	63	107	(88)	(41)	(126)	34	(26)	(9)	(20)	(1 667)
Interest expenses from due to other banks, customer accounts and bonds issued	(15 251)	(2 523)	(299)	(1 247)	(523)	(189)	(574)	(258)	(211)	(257)	(21 332)
Provision recovery/(charge) for impairment	(5 943)	1 327	(79)	463	163	(94)	(150)	(25)	(298)	(1 682)	(6 318)
Administrative and maintenance expense	(6 837)	(428)	(143)	(400)	(157)	(176)	(290)	(94)	(88)	(108)	(8 721)
- Including depreciation charge	(41)	(53)	(12)	(46)	(19)	(22)	(30)	(6)	(11)	(8)	(248)
(Other expenses less other income)/other income less other expenses	(178)	(264)	(48)	53	(4)	32	150	17	213	6	(23)
Current income tax expense	(919)	-	-	-	-	-	-	-	-	-	(919)
Intersegment income and expense*	18 835	(4 478)	(670)	(4 423)	(1 325)	(1 904)	(2 323)	(498)	(1 836)	(1 378)	-
(Loss)/profit of the reportable segments	(26 892)	7 878	1 685	7 623	2 009	2 741	3 175	817	1 094	364	494

* Intersegment income and expense are used by CODM for information purpose only and not for identification of profit or loss of the operating segments.

11 Segment Analysis (Continued)

Reconciliation of reportable segments results is as follows:

(Unaudited) <i>In millions of Russian Roubles</i>	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
Total profit of reportable segments (after tax)	1 014	984	351	494
Adjustment of deferred tax	(10 893)	2 063	(10 481)	1 877
Adjustments of provision for impairment	10 758	2 634	8 462	774
Accounting for derivative financial instruments at fair value	2 381	(2 691)	378	(2 065)
(Losses less gains)/gains less losses from revaluation of other financial instruments at fair value through profit or loss	(348)	(251)	101	(133)
Sale of loans	(3 602)	-	-	-
Adjustments of financial assets and liabilities carried at amortised cost	4 427	(5 799)	3 568	(7 041)
Adjustment of income tax expense	323	(124)	(68)	332
Results of non-reportable segments, including the effect of consolidation*	(2 798)	5 255	(2 328)	5 496
Accrued staff costs	(1 090)	(1 299)	340	130
Other	64	(169)	(264)	(88)
The Group's profit/(loss) under IFRS (after tax)	236	603	59	(224)

* Non-reportable segments are represented by subsidiaries of the Group.

Adjustments of provision for impairment are related to the difference between the methodology applied to calculate provisions for loan impairment under RAR used for preparation of management reporting and the methodology used for IFRS reporting. The provision under RAR is calculated based mainly on formal criteria depending on the financial position of the borrower, quality of debt service and collateral, whereas the provision under IFRS requirement is calculated based on incurred loss model.

Adjustments of derivative financial instruments to their fair value arise from the difference in the accounting treatment of currency swaps under RAR (which are the basis for management reporting) and IFRS reporting. Under RAR foreign exchange swaps are recognised as back-to-back deposits, whereas in the IFRS financial statement such transactions are recognised at fair value. Providing reconciliation, accounting for deals described above under RAR assumes also adjustments related to interest income/expense and total assets of reportable segments.

Adjustments to financial assets and liabilities carried at amortised cost (including adjustments to disposal of loans) resulted from accruals of interest income/expenses using effective interest rate method in IFRS, whereas there is nominal rate accrual approach under RAR.

Adjustments of income tax expense and accrued staff costs arise from the timing difference in recognition of certain expenses (mainly related to unused vacations provision) under RAR compared to IFRS.

Deferred tax accounting in RAR for credit organizations was introduced from 1 April 2014.

All other differences also resulted from the differences between RAR (used as the basis for management reporting) and IFRS.

12 Contingencies and Commitments

Legal proceedings. From time to time in the normal course of business, claims against the Group are received. As at 30 June 2014, based on its own estimates and both internal and external professional advice the Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in these interim condensed consolidated financial statements (except for the one claim described below) (31 December 2013: Group's management is of the opinion that no material losses will be incurred in respect of claims and accordingly no provision for cover of such losses has been made in annual consolidated financial statements).

As at 30 June 2014, one subsidiary company of the Group was involved in litigations. Litigations pose the risk of property disposal from the balance of related subsidiary. Carrying amount of that property as at 30 June 2014 equals to RR 1 797 million (31 December 2013: RR 1 820 million). The Group assesses the probability of property disposal as probable, therefore provision equal to RR 1 797 million was reflected in these interim condensed consolidated financial statements.

12 Contingencies and Commitments (Continued)

Tax contingencies. Russian tax and customs legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Amended Russian transfer pricing legislation took effect from 1 January 2013. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the consequences of any challenge of the Group's transfer prices cannot be reliably estimated; however, it may have an impact on the financial conditions and/or the overall operations of the Group.

The management of the Group believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Therefore, as at 30 June 2014 the management has not created any provision for potential tax liabilities (31 December 2013: none).

Capital expenditure commitments. As at 30 June 2014, the Group has contractual capital expenditure commitments of RR 418 million (31 December 2013: RR 488 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

<i>In millions of Russian Roubles</i>	30 June 2014 (Unaudited)	31 December 2013
Not later than 1 year	3 017	2 867
Later than 1 year and not later than 5 years	7 619	7 929
Later than 5 years	2 194	2 023
Total operating lease commitments	12 830	12 819

Compliance with covenants. The Group is subject to certain covenants primarily relating to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including an increase of the borrowing costs and announcement of the default. The Group's Management believes that the Group is in compliance with the covenants.

Credit related commitments. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Financial guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate or cash deposits and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Group monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

12 Contingencies and Commitments (Continued)

Outstanding credit related commitments are as follows:

<i>In millions of Russian Roubles</i>	30 June 2014 (Unaudited)	31 December 2013
Financial guarantees issued	39 088	39 754
Letters of credit	24 291	25 296
Undrawn credit lines	19 796	36 736
Less: provision for impairment	-	(136)
Total credit related commitments	83 175	101 650

As at 30 June 2014, the amount of financial guarantees issued to the CBRF for three Russian banks with a rating less than BB- (S&P) was RR 3 156 million (31 December 2013: the amount of financial guarantees issued to the CBRF for two Russian banks with a rating less than BB- (S&P) was RR 2 111 million).

Undrawn credit lines are represented by revocable credit lines. The Group has the right to revoke unused portion of credit line in response to a material adverse change of the borrower. As at 30 June 2014 and 31 December 2013, there were no grounds for cancellation of disclosed amount of unused credit lines.

The total outstanding contractual amount of revocable undrawn credit lines, letters of credit, and guarantees does not necessarily represent future cash requirements, as these financial instruments may expire or terminate without being funded.

Credit related commitments are denominated in currencies as follows:

<i>In millions of Russian Roubles</i>	30 June 2014 (Unaudited)	31 December 2013
Russian Roubles	58 276	74 200
US Dollars	18 325	21 983
Euros	6 544	5 420
Other currencies	30	47
Total credit related commitments	83 175	101 650

Assets pledged and restricted. The Group had the following assets pledged and restricted:

<i>In millions of Russian Roubles</i>	30 June 2014 (Unaudited)	31 December 2013
Assets pledged under loan agreements with banks (including CBRF)	26 601	18 017
State Eurobonds pledged under term deposits from clients	7 373	7 176
Security deposit under the lease agreement	202	202

As at 30 June 2014, mandatory cash balances with the CBRF of RR 8 769 million (31 December 2013: RR 8 735 million) represent mandatory reserve deposits which are not available to finance the Group's day to day operations.

As at 30 June 2014, the Bank's subsidiaries did not pledge production premises and equipment under loan agreements with other banks (31 December 2013: the Bank's subsidiaries pledged production premises and equipment under loan agreements with other banks in the total amount of RR 268 million).

As at 30 June 2014 and 31 December 2013 assets pledged under loan agreements with banks (including CBRF) mainly include loans and advances to customers pledged to CBRF under loan agreements in accordance with the CBRF Act # 312-P "On the procedures of granting loans secured by assets or guarantees by CBRF to credit organisations" dated 12 November 2007.

12 Contingencies and Commitments (Continued)

Transferred financial assets that are not derecognized in their entirety. Transferred financial assets that are not derecognized in their entirety are represented by securities transferred without derecognition and pledged under repurchase agreements. As at 30 June 2014 the associated liabilities of these agreements in the current amount of RR 65 862 million are included in due to other banks (31 December 2013: RR 61 461 million) and RR 993 million are included in customer accounts (31 December 2013: RR 14 million).

The following table provides a summary of financial assets which have been transferred in such a way that all of the transferred financial assets do not qualify for derecognition:

	30 June 2014 (Unaudited)		31 December 2013	
	Carrying amount assets	Carrying amount associated liabilities	Carrying amount assets	Carrying amount associated liabilities
<i>In millions of Russian Roubles</i>				
Repurchase agreements				
Corporate Eurobonds	20 393	17 119	22 699	18 471
Corporate bonds	33 751	30 382	27 701	22 846
Federal loan bonds (OFZ)	14 887	14 108	15 880	14 148
Municipal and subfederal bonds	5 040	4 696	5 312	4 562
State Eurobonds	609	550	1 618	1 448
Total	74 680	66 855	73 210	61 475

13 Derivative Financial Instruments

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivative financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms.

The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. Liquidity risk on derivative financial instruments is managed by the Group's Treasury and the Capital Markets Department within powers of departments. Management of derivative financial instrument portfolio risks is carried out by authorized Group's bodies through establishing limits.

In the aggregate amount of foreign exchange swaps with original settlement dates of more than 30 working days prevails swaps structured as loans issued by the Group in US Dollars, Swiss Francs, Chinese Yuans and Japanese yens to large OECD banks and one of the Russian banking groups with maturities from September 2014 to May 2023, and deposits in Russian Roubles received from the same counterparties with the same maturities ("back-to-back loans"). These transactions are aimed at economically hedging the currency exposure of the Group.

Most of these agreements contain special procedures for counterparties upon the occurrence of a credit event or an event of default (for example bankruptcy, failure to pay, obligation acceleration, repudiation/moratorium or restructuring external unsubordinated public liabilities, falling of ratings, providing incorrect or misleading representation). The subjects of such events are the Group, and in some instances, the counterparty of the agreement, and/or the Russian Federation. Some of the agreements provide that no further mutual payment obligation between the parties is due, if a credit event or default event happens. Some agreements on the exchange of resources provide termination of liabilities with a mark-to-market payment in the case of a relevant event (e.g., a default event).

As at 30 June 2014, international credit ratings of these counterparties were not less than BB- (S&P) (31 December 2013: not less than BB- (S&P)).

13 Derivative Financial Instruments (Continued)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 30 June 2014 and covers the contracts with settlement dates after the respective end of the reporting period:

<i>(Unaudited)</i> In millions of Russian Roubles	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	269 104	(240 518)	30 067	(1 481)
- Interest rate	20 178	(20 640)	435	(897)
Options	531	(531)	8	(8)
Total	289 813	(261 689)	30 510	(2 386)

The table below reflects gross positions in derivative financial instruments before netting of any counterparty positions as at 31 December 2013 and covers the contracts with settlement dates after the respective end of the reporting period:

<i>In millions of Russian Roubles</i>	Principal or agreed amount at fair value of assets receivable	Principal or agreed amount at fair value of assets payable	Positive fair value	Negative fair value
Forwards and swaps				
- Currency	319 596	(295 160)	25 373	(937)
- Interest rate	3 040	(2 759)	294	(13)
Total	322 636	(297 919)	25 667	(950)

14 Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Trading securities, securities available for sale, and related investment securities pledged under repurchase agreements are carried on the consolidated statement of financial position at their fair value based on quoted market prices.

Financial instruments designated at fair value through profit or loss and derivative financial instruments are carried on the consolidated statement of financial position at their fair value based on valuation technique with inputs observable in markets. Derivative financial instruments are measured at fair value as assets when fair value is positive and as liabilities when fair value is negative. The Group uses discounted cash flow techniques with observable market data inputs as offshore and onshore yield curves, as well as market data, reflecting the distribution of the probability of default over time.

Cash and cash equivalents are carried at amortised cost which approximates current fair value.

14 Fair Value of Financial Instruments (Continued)

Loans and receivables carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate bearing placements is based on discounted cash flows using current market interest rates for instruments with similar credit risk and similar maturity.

Held to maturity securities carried at amortised cost. The fair value for held to maturity securities and securities held to maturity pledged under repurchase agreements is based on market price.

Liabilities carried at amortised cost. The fair value of bonds issued is based on market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and similar remaining maturity.

(a) Fair value of financial instruments carried at amortised cost and at fair value

<i>In millions of Russian Roubles</i>	30 June 2014 (Unaudited)		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets carried at amortised cost				
Cash and cash equivalents	96 000	96 000	128 444	128 444
Mandatory cash balances with the CBRF	8 769	8 769	8 735	8 735
Due from other banks	28 084	28 017	43 065	43 203
Loans and advances to customers				
- Loans to corporates	1 029 559	1 004 698	1 004 146	989 321
- Lending for food interventions	11 686	11 686	10 896	10 896
- Reverse repo agreements	1 872	1 872	504	504
- Investments in agricultural cooperatives	369	369	365	365
- Loans to individuals	249 781	243 819	245 135	248 743
Investment securities held to maturity including pledged under repurchase agreements				
- Corporate bonds	11 962	11 689	14 381	14 345
- State Eurobonds	7 374	7 601	7 175	7 411
- Municipal and subfederal bonds	468	457	3 251	3 246
- Federal Loan bonds (OFZ)	2 319	2 006	2 318	2 165
- Corporate Eurobonds	20 452	20 510	20 518	19 813
Other financial assets	6 258	6 258	11 429	11 429
Total financial assets carried at amortised cost	1 474 953	1 443 751	1 500 362	1 488 620
Financial assets carried at fair value	135 794	135 794	127 854	127 854
Total financial assets	1 610 747	1 579 545	1 628 216	1 616 474
Financial liabilities carried at amortised cost				
Due to other banks				
- Term borrowings from other banks	81 792	84 593	99 234	102 854
- Term borrowings from the CBRF	52 185	52 185	49 948	49 948
- Correspondent accounts and overnight placements of other banks	10 443	10 443	498	498
Customer accounts				
- State and public organisations	192 352	192 352	154 906	154 906
- Other legal entities	280 303	280 303	317 932	317 932
- Individuals	270 800	270 053	249 287	248 753
Promissory notes issued and deposit certificates	28 262	28 262	31 174	31 174
Bonds issued				
- Eurobonds issued	261 761	267 901	299 782	309 886
- Bonds issued on domestic market	159 317	158 377	150 021	150 716
Other financial liabilities	1 623	1 623	6 299	6 299
Subordinated debts	75 380	72 197	74 053	71 175
Total financial liabilities carried at amortised cost	1 414 218	1 418 289	1 433 134	1 444 141
Financial liabilities carried at fair value	2 386	2 386	950	950
Total financial liabilities	1 416 604	1 420 675	1 434 084	1 445 091

14 Fair Value of Financial Instruments (Continued)

(b) Analysis by fair value hierarchy of financial instruments

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and
- (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs).

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Fair value hierarchy. For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Analysis of financial and non-financial instruments as at 30 June 2014 is as follows:

<i>(Unaudited)</i> In millions of Russian Roubles	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	-	4 087	-	4 087
Financial instruments designated at fair value through profit or loss	-	5 339	-	5 339
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	95 858	-	-	95 858
Derivative financial instruments	-	30 510	-	30 510
Office premises	-	-	8 725	8 725
Assets for which fair values are disclosed				
Cash and cash equivalents	-	96 000	-	96 000
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	8 769	8 769
Due from other banks	-	28 017	-	28 017
Loans and advances to customers	-	-	1 262 444	1 262 444
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	42 263	-	-	42 263
Other financial assets carried at amortised cost	-	-	6 258	6 258
Total financial and non-financial assets	138 121	163 953	1 286 196	1 588 270
Liabilities measured at fair value				
Derivative financial instruments	-	2 386	-	2 386
Liabilities for which fair values are disclosed				
Due to other banks	-	147 221	-	147 221
Customer accounts	-	-	742 708	742 708
Promissory notes issued and deposit certificates	-	-	28 262	28 262
Bonds issued				
- Eurobonds issued	247 363	-	20 538	267 901
- Bonds issued on domestic market	158 377	-	-	158 377
Subordinated debts	45 233	26 964	-	72 197
Other financial liabilities	-	-	1 623	1 623
Total financial liabilities	450 973	176 571	793 131	1 420 675

14 Fair Value of Financial Instruments (Continued)

Analysis of financial and non-financial instruments as at 31 December 2013 is as follows:

<i>In millions of Russian Roubles</i>	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with non- observable inputs (Level 3)	Total
Assets measured at fair value				
Trading securities	61	2 749	-	2 810
Financial instruments designated at fair value through profit or loss	-	12 220	-	12 220
Investment securities available for sale, including investment securities available for sale pledged under repurchase agreements	87 157	-	-	87 157
Derivative financial instruments	-	25 667	-	25 667
Office premises	-	-	8 669	8 669
Assets for which fair values are disclosed				
Cash and cash equivalents	-	128 444	-	128 444
Mandatory cash balances with the Central Bank of the Russian Federation	-	-	8 735	8 735
Due from other banks	-	43 203	-	43 203
Loans and advances to customers	-	-	1 249 829	1 249 829
Investment securities held to maturity, including investment securities held to maturity pledged under repurchase agreements	46 980	-	-	46 980
Other financial assets carried at amortised cost	-	-	11 429	11 429
Total financial and non-financial assets	134 198	212 283	1 278 662	1 625 143
Liabilities measured at fair value				
Derivative financial instruments	-	950	-	950
Liabilities for which fair values are disclosed				
Due to other banks	-	153 300	-	153 300
Customer accounts	-	-	721 591	721 591
Promissory notes issued and deposit certificates	-	-	31 174	31 174
Bonds issued				
- Eurobonds issued	290 069	-	19 817	309 886
- Bonds issued on domestic market	150 716	-	-	150 716
Subordinated debts	43 522	27 653	-	71 175
Other financial liabilities	-	-	6 299	6 299
Total financial liabilities	484 307	181 903	778 881	1 445 091

There were no financial instruments carried at fair value based on a valuation technique with non-observable inputs (Level 3) as at 30 June 2014 and 31 December 2013.

15 Related Party Transactions

For the purposes of these interim condensed consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial or operational decisions. The Bank's only shareholder is the Government of the Russian Federation represented by the Federal Agency for Managing State Property. Refer to Note 1.

In these interim condensed consolidated financial statements, significant balances and transactions with the state-controlled entities and parties that are related to such entities and balances and transactions with related parties represented by key management and their family members are disclosed.

15 Related Party Transactions (Continued)

The outstanding balances with related parties were as follows:

<i>In millions of Russian Roubles</i>	30 June 2014	(Unaudited) 31 December 2013
Cash and cash equivalents		
CBRF	18 734	39 812
Other banks	24 471	28 989
Loans and advances to customers		
Loans and advances to customers (before impairment)	47 891	44 685
Provision for loan impairment at the end of the period	(565)	(322)
Derivative financial instruments — assets	222	95
Securities		
Securities issued by Russian Federation	32 279	33 324
Securities of entities and banks	34 882	36 933
Due from other banks	14 495	1 700
Customer accounts		
Entities	273 487	207 211
Key management and their family members	373	195
Subordinated debts	25 000	25 000
Due to other banks		
CBRF	52 185	49 948
Other banks	21 933	19 595
Derivative financial instruments — liabilities	2 201	150
Guarantees issued	9 853	3 660
Guarantees received	14 548	14 964

15 Related Party Transactions (Continued)

The income and expense items with related parties were as follows:

(Unaudited) <i>In millions of Russian Roubles</i>	For the six months ended 30 June		For the three months ended 30 June	
	2014	2013	2014	2013
Interest income on cash and cash equivalents				
CBRF	27	35	4	-
Other banks	228	224	210	200
Interest income on due from other banks	26	-	26	-
Interest income on loans and advances to customers	1 904	2 012	983	1 068
Interest income on securities				
Securities issued by Russian Federation	1 151	509	583	227
Securities of entities and banks	1 329	1 440	615	211
Losses net of gains from securities				
Securities issued by Russian Federation	(385)	86	(179)	92
Securities of entities and banks	(70)	7	(77)	(28)
Gains less losses from derivative financial instruments	(1 992)	484	(2 824)	589
Interest expense on customer accounts				
Entities	(8 279)	(4 830)	(4 592)	(2 776)
Key management and their family members	(7)	(3)	(4)	(2)
Interest expense on subordinated debts	(806)	(815)	(405)	(405)
Interest expense on due to other banks				
CBRF	(1 612)	(349)	(948)	(204)
Other banks	(273)	(365)	(162)	(166)

Key management of the Group represents members of the Supervisory Board, the Management Board and Chief Accountant of the Bank. For the six months ended 30 June 2014 total remuneration of the key management amounted to RR 188 million (for the six months ended 30 June 2013: RR 162 million), for the three months ended 30 June 2014: RR 81 million (for the three months ended 30 June 2013: RR 36 million).

16 Events after the End of the Reporting Period

In June 2014, the Bank's shareholder declared dividends for the year ended 31 December 2013 in the amount of RR 255 million. Dividends were paid out to the Bank's shareholder in July 2014.

In August 2014, the Group repaid bonds denominated in RR issued on the domestic market in the amount of RR 1 827 million at the put option date.

In July 2014, the amendments to the Federal Law on additional measures for supporting the Russian financial system were approved. The government or its agencies has a right to acquire non-cumulative preference shares of certain banks from the proceeds from repayment of the previously granted by Vnesheconombank subordinated debt to these banks. As at 30 June 2014, the carrying amount of the Group's outstanding subordinated debt attracted from Vnesheconombank was RR 25 000 million.